

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PETITION OF ALLTEL KENTUCKY FOR)	CASE NO.
AN INCREASE IN RATES)	2004-00193

O R D E R

On April 23, 2004, ALLTEL Kentucky, Inc. ("ALLTEL Kentucky") filed notice of its intent to increase its rates pursuant to KRS 278.516, which provides, among other things, an alternate rate filing procedure for small telecommunications utilities.¹ ALLTEL Kentucky also filed on that date a tariff reflecting the proposed increase with a proposed effective date of August 1, 2004. ALLTEL Kentucky modified the proposed tariff and changed the effective date to August 7, 2004. By this Order, we suspend the tariff, make certain interim findings, and order ALLTEL Kentucky to file responses to questions as described herein.

KRS 278.516 permits a small telephone utility, within certain parameters, to increase its rates based on the GDP for the preceding two calendar years. If those parameters are met, and if 5 percent or 500 of the small utility's customers, whichever is greater, have not requested Commission review of the proposed increase, that increase

¹ On October 13, 1998, ALLTEL Kentucky filed its notice stating its election to be regulated pursuant to KRS 278.516. This Commission recognized the election by Order dated December 30, 1998, in Case No. 1998-00529, Board Resolution of ALLTEL Kentucky, Inc., Pursuant to Kentucky Revised Statute Chapter 278.516, Alternative Regulation Process for Small Telephone Utilities.

becomes effective without a Commission rate proceeding pursuant to KRS 278.190. ALLTEL Kentucky's filing in this case raises two questions: (1) Given the 2002 acquisition of the Kentucky properties of Verizon South, Inc. by Kentucky ALLTEL, Inc. ("Kentucky ALLTEL"), an affiliate of ALLTEL Kentucky,² may ALLTEL Kentucky still be defined as a "small telephone utility" pursuant to KRS 278.516(2) such that the alternate regulation provisions of the statute still apply to it? (2) Given that the statute explicitly prescribes that the increase permitted under KRS 278.516(3) is "not to exceed the sum of the annual percentage changes in the GDP for the immediately preceding two (2) calendar years," may a small telephone utility increase its rates based on the annual percentage changes of a sub-category of the GDP so that its increase would in fact exceed the GDP percentage change for the preceding two calendar years? We tentatively conclude that the answer to both questions is no.

KRS 278.516 makes available expedited, simplified regulatory procedures to small telephone utilities based on the legislative finding that, among other things, they "lack the resources to fully participate in existing regulatory processes." KRS 278.516(1)(a). Consequently, the statute defines "small telephone utility" as a "local exchange carrier providing telephone utility service and having not more than fifty thousand (50,000) access lines in Kentucky." KRS 278.516(2)(d). The statute requires the Commission to calculate the number of access lines by counting "the number of access lines provided by all telephone utilities under common ownership or control, as

² Case No. 2001-00399, Petition by ALLTEL Corporation to Acquire the Kentucky Assets of Verizon South, Incorporated (Order dated February 13, 2002).

defined in KRS 278.020(5).” KRS 278.516(2)(f). KRS 278.020(5), in turn, defines “control” to mean:

[T]he possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a utility, whether through the ownership of voting securities, by effecting a change in the composition of the board of directors, by contract or otherwise. Control shall be presumed to exist if any individual or entity, directly or indirectly, owns ten percent (10%) or more of the voting securities of the utility.

KRS 278.020(5).

Based on these statutory provisions, the acquisition of the Verizon Properties by Kentucky ALLTEL – which is, like ALLTEL Kentucky, an entity wholly owned by the ALLTEL Corporation of Little Rock, Arkansas – appears to have terminated the applicability of KRS 278.516 to ALLTEL Kentucky. The records of the Commission definitively show that the access line count of both ALLTEL entities in Kentucky far exceeds the 50,000 line limitation specified in the statute, and we take administrative notice of same. We also note that the notice of ALLTEL Kentucky’s proposed rate increase was, in fact, sent by the manager of state government affairs of the corporate parent, and that the notice specified a return address in Little Rock, Arkansas, rather than in Shepherdsville, Kentucky.

Next, KRS 278.516 specifically limits rate increases to the “sum of the annual percentage changes in the GDP for the immediately preceding two (2) calendar years multiplied by the existing rate or charge to be adjusted.” The “GDP” is defined in the statute as “the real Gross Domestic Product Price Index, as it may be amended from time to time, as it is published by the Bureau of Economic Analysis of the United States Department of Commerce.” KRS 278.516(2)(g). The “annual percentage change in the GDP” is defined as “the annual percentage change in the GDP as it is calculated by the

Bureau of Economic Analysis of the United States Department of Commerce.”
KRS 278.516(2)(h).

ALLTEL Kentucky’s proposed increase is based upon a sub-category of the GDP, the percentage increase of which has been larger than that of the total GDP. Accordingly, we tentatively conclude, as a matter of law, that the increase mechanism proposed is not authorized by KRS 278.516.

Although the conclusions reached herein are based on our interpretation of the applicable law, they are tentative conclusions only. ALLTEL Kentucky should be given an opportunity to respond to these conclusions, offering any arguments it may have in support of its alleged right to adjust its rates pursuant to the KRS 278.516 procedure and in support of the alleged propriety of measuring a small telephone utility rate increase by use of a sub-category of the GDP rather than by use of the GDP as a whole. In the alternative, ALLTEL Kentucky may withdraw its petition in this matter and, if it deems a rate increase necessary, file pursuant to KRS 278.190.

The Commission having reviewed the record and having been sufficiently advised, HEREBY ORDERS that:

1. The tariff of ALLTEL Kentucky, filed on April 23, 2004 and containing proposed rate increases, is hereby suspended for 5 months from August 7, 2004, up to and including January 6, 2005.
2. No later than 30 days from the date of this Order, ALLTEL Kentucky shall file one of the following:
 - a. An argument in support of its alleged right to adjust its rates pursuant to the KRS 278.516 procedure for small telephone utilities and an argument in

support of a small telephone utility's alleged right to calculate an increase under KRS 278.516 based upon the percentage increase in a sub-category of the GDP rather than the percentage increase of the GDP as a whole; or

b. A notice stating that its petition to increase rates pursuant to KRS 278.516 shall be withdrawn.

3. In the event that ALLTEL Kentucky does not file in support of its petition to increase rates pursuant to KRS 278.516 as described in Ordering Paragraph 2(a) herein, the tentative findings and conclusions contained herein shall become final.

4. Nothing herein shall be construed to prevent the Commission from entering dispositive orders in this case prior to the termination of the suspension period.

Done at Frankfort, Kentucky, this 1st day of June, 2004.

By the Commission

ATTEST:


Executive Director

ALLTEL COMMUNICATIONS

One Allied Drive
P.O. Box 2177
Little Rock, AR 72202

Karen Higgs
Manager
State Government Affairs

501-905-8355
501-985-5087 fax
e-mail: karen.higgs@alltel.com

~~765-0582~~
ALLTEL

2004-00193

RECEIVED April 22, 2004

APR 23 2004

PUBLIC SERVICE
COMMISSION

Mr. Tom Dorman, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

Re: Basic Rate Increase per Small Company Alt Reg Plan

Dear Mr. Dorman:

Attached are an original and 9 copies of the following tariff sheets within ALLTEL Kentucky, Inc. PSC KY No. 2 General Subscriber Services Tariff.

<u>Section</u>	<u>Title</u>	<u>Revision</u>	<u>Sheets</u>
25	Local Exchange Rates	5 th	2
27	Service Charges, Connections, Moves, & Changes	6 th	3

The purpose of this filing is to increase Basic Service Rates in accordance with the Kentucky Small Company Alternative Regulation Plan. This filing has an issue date of April 23, 2004, and a proposed effective date of August 1, 2004. Upon the Commission's approval, we would appreciate receiving a stamped copy of the tariff sheets.

Also included with this filing is a draft of the proposed customer notice, for your approval. A worksheet showing current rates, proposed rates based on the GDPPI calculation, and BellSouth's rates is also included.

Should you have any questions regarding this filing, please call me at (501) 905-8355.

Sincerely,

Karen Higgs
Karen Higgs

Attachments

25. LOCAL EXCHANGE RATES (Continued)

25.1 Rates for All Classes of Service (Continued)

A. Schedule of Bracket Rates by Rate Group - Residence

<u>Monthly Rates</u>	
Rate Group	Rate Group
<u>I-A</u>	<u>II-A</u>
\$ 8.54	\$12.11

(I)

B. Schedule of Bracket Rates by Rate Group - Business

		<u>Monthly Rates</u>	
		Rate Group	Rate Group
		<u>I-A</u>	<u>II-A</u>
1)	Exchanges with One-Party and Multi-Party Service		
a)	P(A)BX Trunks	\$30.20	\$60.00
b)	Key System Lines-Rotary	18.04	36.25
c)	Key System Lines-Non-Rotary	15.10	30.14
d)	One-Party	14.92	30.43
e)	Network Access Register(NAR)	14.35	28.75

(I)

(I)

(D)

(I)

Note 1: Rates shown do not include a Company provided instrument.

Note 2: Those converted to one-party from multi-party in July 1995 will be notified of the change by letter. Their billing will not be increased until January 1996.

ISSUED: April 23, 2004
ISSUED BY: Vice President, State Government Affairs
One Allied Drive
Little Rock, AR 72203

EFFECTIVE: August 1, 2004
ISSUED BY THE AUTHORITY OF P.S.C.
Order No:
Date of Order:

27. SERVICE CHARGES - CONNECTIONS, MOVES AND CHANGES (Continued)

27.3 Rates

The following service charges apply in addition to other applicable rates and charges found elsewhere in this tariff.

	<u>Residence</u>	<u>Business</u>	
Service Order Charge (\$)			
Initial Order	\$15.57	\$15.57	(I)
Subsequent Order	12.78	12.78	
Addition of Special Access Line Features, i.e., Custom Calling and ALLSTAR Services	5.37	5.37	
Line Connection Charge (L), each	4.42	4.42	
Premise Visit Charge	11.63	11.63	(I)
Installation Expedite Charge	1,500.00	1,500.00	

27.4 Link-Up Kentucky

27.4.1 Definition

- A. Link-Up Service is a retail local service offering available to qualifying low-income residential customers who participate in one of the following programs:

Medicaid
Food Stamps
Supplemental Security Income
Federal Public Housing assistance
Low Income Home Energy assistance program

27.4.2 Discounts

- A. Customers deemed eligible for Link-Up assistance will receive a reduction in the eligible customary service charge for commencing telecommunications service for a single telecommunications connection at the customer's principal place of residence.
- B. The monthly discounted service charge shall be 50% of the customary charge or \$30, whichever is less.
- C. A qualifying low-income customer may receive a deferred schedule for payment of the charges assessed for commencing service, for which the customer does not pay interest. The interest charges not assessed to the customer shall be for connection charges of up to \$200 that are deferred for a period not to exceed one year. Charges assessed for commencing service include any charges that the Company customarily assesses to connect customers to the network. These charges do not include any permissible security deposit requirements.

27.4.3. General

- A. A customer deemed eligible for Lifeline Service is automatically eligible for Link-Up service.
- B. Link-Up Program Service will not be available on a retro-active basis.

ISSUED: April 23, 2004

EFFECTIVE: August 1, 2004

ISSUED: Vice President - State Govt. Affairs
Little Rock, Arkansas

ISSUED BY THE AUTHORITY OF P.S.C.
Order No.:

ALLTEL Kentucky, Inc. **Proposed Basic Rate Increases**

ASOCs	Current Tariffed Rate, Rate Group I	Current Tariffed Rate, Rate Group II	Proposed Rate, Rate Group I	Proposed Rate, Rate Group II	BellSouth's Rate	
					Comparable to Rate Group I	Comparable to Rate Group II
Residential						
Residential One Party						
F1, KRL	\$ 8.12	\$ 11.51	\$ 8.54	\$ 12.11	\$ 16.65	\$ 18.40
Business						
P(A)BX Trunks						
Key System Lines-Rotary	\$ 28.70	\$ 57.45	\$ 30.20	\$ 60.00	\$ 60.00	\$ 60.00
Key System Lines-Non Rotary	\$ 7.15	\$ 34.45	\$ 18.04	\$ 36.25	\$ 41.15	\$ 37.50 *
Business One Party	\$ 14.35	\$ 28.65	\$ 15.10	\$ 30.14	\$ 35.90	\$ 33.75
Network Access Register (NAR)	\$ 14.18	\$ 28.92	\$ 14.92	\$ 30.43	\$ 35.90	\$ 33.75
	\$ 14.35	\$ 28.75	\$ 15.10	No Change	\$ 25.80	\$ 25.80
Service Order Charges						
Initial Order	\$ 14.80	\$ 14.80	\$ 15.57	\$ 15.57	\$ 42.00	\$ 72.00
Subsequent Order	\$ 12.15	\$ 12.15	\$ 12.78	\$ 12.78	\$ 35.00	\$ 48.00
Addition of Special Access Line Features	\$ 5.10	\$ 5.10	\$ 5.37	\$ 5.37	Included in Initial Order	Included in Initial Order
Line Connection Charge (each)	\$ 4.20	\$ 4.20	\$ 4.42	\$ 4.42	Included in Initial Order	Included in Initial Order
Premise Visit Charge	\$ 11.05	\$ 11.05	\$ 11.63	\$ 11.63	\$ 30.00	\$ 30.00
Restoral Charge	\$ 19.00	\$ 19.00	\$ 19.99	\$ 19.99	\$ 35.00	\$ 48.00 **

% Change in		
GDPPI		
4Q2001	4Q2002	4Q2003
104,243	107,174	109,746
	2.81%	2.40%
		521%

GDPPI Calculation, Table 11.4

GDP, Pers. Cons. Svcs
 Change from Previous Year

* BellSouth's Key System Lines-Rotary rate is a composite of their Business One Party and Grouping Service (Trunk Hunting).
 ** Restoral Charge for ALLTEL Kentucky is the total of the Initial Order Charge and the Line Connection Charge (not shown as separate specific tariffed rate).

Text of Message to go to Zoneton Business and Residential Customers Regarding Basic Rate Increases:

Our goal at ALLTEL is to provide customers with the best possible telecommunications services, while keeping the local rates of all our customers as low as possible. Occasionally it is necessary to increase the cost of service and adjust rates due to natural economic inflation. ALLTEL's monthly basic local service rates in Kentucky have not increased in more than 3 years.

Effective August 1, 2004, ALLTEL Kentucky, Inc., will increase the monthly local telephone service rates for basic residential and business service as follows:

	Current Rate	Proposed Rate
Residential One Party	\$11.51	\$12.11
Key System Line Residence	\$11.51	\$12.11
Business One Party or Public Telephone	\$28.92	\$30.43
PBX Line	\$57.45	\$60.00
Key System Business	\$28.65	\$30.14
Key System Business, Rotary	\$34.45	\$36.25

The following service order rates will also change for both residential and business customers:

	Current Rate	Proposed Rate
Initial service order	\$14.80	\$15.57
Subsequent service order	\$12.15	\$12.78
Addition of special access:		
Line features	\$5.10	\$5.37
Line connection	\$4.20	\$4.42
Premise visit	\$11.05	\$11.63

The rates contained in this notice are proposed by ALLTEL. If you have any questions, please call an ALLTEL customer service representative at 1-800-347-1991 (residential) or 1-800-843-9214 (business). Customers may object to the adjustments and request a review by filing a letter or petition with the Public Service Commission at the following location:

Commonwealth of Kentucky
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

On October 6, 1998, ALLTEL Kentucky, Inc., elected to have its prices regulated pursuant to Kentucky Revised Statute 278.516. The Kentucky Public Service Commission, on December 30, 1998, issued an order stating ALLTEL is compliant with the statute. Under the statute, ALLTEL may adjust its rates once during any 24-month period by an amount not to exceed the sum of the annual percentage change in the Gross Domestic Product Price Index (GDP) for the immediately preceding two years. The GDP for the 2002 and 2003 increased 2.81% and 2.40%, respectively, for a combined total of 5.21% over the two-year period. The above proposed price increases are in compliance with Kentucky Revised Statute 278.516.

Text of Message to go to Shephardsville & Mt. Washington Business & Residential Customers regarding Basic Rate Increases:

Our goal at ALLTEL is to provide customers with the best possible telecommunications services, while keeping the local rates of all our customers as low as possible. Occasionally it is necessary to increase the cost of service and adjust rates due to natural economic inflation. ALLTEL's monthly basic local service rates in Kentucky have not increased in more than 3 years.

Effective August 1, 2004, ALLTEL Kentucky, Inc., will increase the monthly local telephone service rates for basic residential and business service as follows:

	Current Rate	Proposed Rate
Residential One Party	\$8.12	\$8.54
Key System Line Residence	\$8.12	\$8.54
Business One Party or Public Telephone	\$14.18	\$14.92
PBX Line	\$28.70	\$30.20
Key System Business	\$14.35	\$15.10
Key System Business, Rotary	\$17.15	\$18.04
ADC Network Access Register	\$14.35	\$15.10

The following service order rates will also change for both residential and business customers:

	Current Rate	Proposed Rate
Initial service order	\$14.80	\$15.57
Subsequent service order	\$12.15	\$12.78
Addition of special access:		
Line features	\$5.10	\$5.37
Line connection	\$4.20	\$4.42
Premise visit	\$11.05	\$11.63

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